

## Business Ethics Perceptions in the Czech Republic during Global Economic Crisis

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Doi:10.5901/ajis.2015.v4n1s1p115

### Abstract

Based on a questionnaire survey, this study investigates business ethics (BE) in the Czech Republic as perceived by employees of Czech private and public organizations. Four main aspects of Czech BE are covered: 1) the management of BE in Czech organizations, 2) Czech managers' opinion of BE practices in their industries, 3) managers' previous experience of ethical conflicts, and 4) the factors influencing (un)ethical decisions. According to the results, while most organizations are making effort to enhance BE, large companies are more active in promoting BE when compared with small and medium size enterprises. The most common BE tools are corporate philosophy, code of ethics, and contribution to social/cultural activity. Personal code of ethics is the strongest driver of ethical decisions, and financial needs and lack of company policy are the strongest factors in making unethical decisions. Slightly over a half of respondents have some experience with ethical conflicts, majority of which are related to honesty in internal communication, offering bribes, and honesty in executing contracts and agreements. Unethical practices seem widespread, with bribing, unfair competitive and pricing practices, and contract violation perceived as the most serious issues. Our study also tentatively suggests that BE is increasingly beginning to be seen as an issue internal to the organization.

**Keywords:** business ethics, Czech Republic, transitional economies, managers' perceptions

### 1. Introduction

This paper focuses on the investigation of business ethics (BE) practices in the Czech Republic (CR)<sup>1</sup>, which is a middle-size Central European country that belongs among new members of the European Union (EU)<sup>2</sup>. CR is an open economy highly dependent on export, and, due to its geographical position in the center of Europe along with its well-educated workforce, it is a popular site for foreign companies to locate their regional representations in. Thus, despite its relatively small economic size, the country has now become an important business crossroads for many European and global companies.

Since the reinstatement of the market economy in 1989, Czech companies as well as government officials have gradually realized that BE is an important factor influencing the overall quality and international attractiveness of local business environment. The entry in the EU brought the need to harmonize Czech standards and legislature with those of the EU and also highlighted the importance of anti-corruption measures, corporate social responsibility (CSR) and BE. Unfortunately, post-communist countries do not enjoy favourable reputation in relation to local ethical standards, and corruption and BE have become important consideration for foreign companies envisaging to bring their business to Central Europe or the CR. As Čaník and Čaníková (2006) document, among the EU economies, the Czech Republic is generally perceived as less ethical than old-member states (e.g. France, Germany, etc. ), but more ethical than other newly accessed countries (e. g. Poland or Hungary).

Combined with increasing international competition, the fact that foreign companies often express their fear of the existence of unethical practices only serves to emphasize that the Czech Republic should be careful not to lose any potential investors or business partners because of their fear of low level of ethical standards. Although some Czech managers still tend to think that, especially in short-term, unethical conduct gives competitors an advantage over other companies (Trnková, 2004), they are becoming increasingly aware that in the long run, ethical attitudes bring companies

more benefits than costs. This attitude is becoming more common and the number of initiatives and organization dedicated to BE enhancement has recently been growing.

Inspired by the growing significance of BE in the Czech Republic and lack of up-to-date studies on the subject, this paper investigates BE in the Czech Republic as perceived by managers from private and public organizations located in the CR. This study focuses on managers' perceptions of BE in four main areas: 1) the management of BE in Czech organizations, 2) Czech managers' opinion of BE practices in their industries, 3) managers' experience of ethical conflicts, and 4) the factors influencing (un)ethical decisions. The research is based on a questionnaire survey conducted on the sample of 60 Czech companies evenly distributed among various industry groups and company sizes.

We find that majority of organizations are aware of BE issues and are making effort to enhance BE, most commonly by the use of corporate philosophy, code of ethics, and contribution to social/cultural activity. Our results suggest prevailing discrepancy between small and medium companies (SMEs) and large companies, which are on average more active in promoting BE than SMEs. In making *ethical* decisions, Czech managers are most strongly influenced by their personal code of behaviour and company policy. Personal financial needs and lack of company policy are viewed as the strongest factors for making *unethical* decisions. Slightly over a half of survey participants have experienced an ethical conflict in their career, most often related to honesty in internal communication, offering bribes, and firings and layoffs. The results further suggest the existence of a gap between theory and practice, as the answers to situational questions reveal that in reality respondents' personal ethical standards are not as influential as they report. Unethical practices seem widespread, with bribing, unfair competitive practices, price discrimination and unfair pricing practices, and breaking or violating contracts seen as the most serious issues. Our study also tentatively suggests changing understanding of BE, which is beginning to be seen as organizations' internal issue.

Our study contributes to the BE field in several respects. Its findings can be used by any organizations, institutions or initiatives having the promotion and enhancement of BE as their goal<sup>3</sup>. More detailed knowledge of how BE is perceived by local managers is an important factor, which can help them target their effort and increase the effectiveness of their BE related activities. Second, reliable information regarding Czech BE significantly facilitates the entry of foreign companies and investors in local market, as they can get a more accurate perspective of local business environment<sup>4</sup>. This can, in turn, help improve international competitiveness of the Czech Republic through increased trust and improved international reputation. Furthermore, this study also brings valuable information to Czech business managers, because it gives them a chance to verify their own views of Czech BE. In this respect, our study is especially important as Czech managers often report lack of information regarding BE in the CR. Finally, our study can also serve as teaching material for educators, who often rely on materials from other countries, as BE is still a very new subject at Czech universities.

The rest of the paper proceeds as follows. The following section (Section II) briefly discusses the development of the CR since the Velvet Revolution in 1989 until present, and shortly summarizes existing studies related to Czech BE. Section III provides overview of the methodology and sample descriptive statistics. The analysis and the results are provided in Section IV. The paper is concluded in Section V.

## 2. Evolution of BE in CR since in Post-communist Era and Prior Studies

BE in the Czech Republic is a relatively new topic for scholars as well as researchers. Until the Velvet Revolution in 1989, Czechoslovakia<sup>5</sup> was a communist country with a command economy system, which meant that BE virtually did not exist (for broader discussion on the challenges that Czech modern history and transitional process brought in the field of BE see Bohata, 1997; Cordeiro, 2003; Barclay and Smith, 2003; or Brown et al. , 2003). During the transition period following 1989, market system and market principles were gradually re-introduced. The whole process was accompanied by necessary systemic changes, which happened relatively quickly over a short period of time.

Since 1989, the Czech Republic has gone through several stages of BE development. With some delay, the evolution of BE roughly copied the phases of Czech economic transition, and was also strongly influenced by the accession process in the EU. Major attributes of the first phase (1989 - mid-1990s) were fast pace of changes, underdeveloped legal system and turbulent business environment. As most business organizations were mainly concerned with economic survival, they displayed very low or no interest in BE.

In mid-1990s, CR entered so-called know-why stage (Trnkova, 2004) and BE started receiving more attention. Czech business environment gradually stabilized and reached sufficient level of maturity to create room for businesses to focus on issues not directly related to short-term economic goals. Also alerted by corruption scandals involving important persons of public life, companies began to realize the importance of ethical standards and trustworthy behaviour in business relationships. However, due to the lack of deeper and systematic understanding of BE (as well as CSR), local

firms still needed to learn to understand the benefits of ethical conduct and find motivation for its systematic development. It is at this stage that the first studies trying to map corruption and BE situation in the CR appeared. Among the most important authors, we can mention Bohata (1997), Putnova (1999, 2000, 2001, 2007), and Nemcova (2001). The effort of scholars was also accompanied by the attempts of international organizations such as Transparency International (TI) to map local situation concerning CSR and BE (e. g. Průzkum aplikace etických kodexů, TI, 2006). As BE was reintroduced as a subject to schools, more theoretically oriented literature as well as specialized studies appeared (Friedel, 2003; Cooper and Dofrman, 2003).

At the beginning of the new millennium, the country reached current, know-how stage. By now, most Czech organization have accepted the need to institutionalize BE and incorporate BE and CSR activities in their strategy, however, as Travnickova (2005) suggests, there is still serious lack of knowledge of specific tools and procedures. According to Čaník and Čaníková (2006), Czech managers believe that there is still not enough information or literature on BE and BE issues are seriously neglected by media and the press. Managers would especially welcome more specific information concerning the implementation of various BE instruments, more positive examples, or databases containing the experience and best practices of other companies. BE and CRS studies conducted in the CR (Trnkova, 2004) also suggest that companies with foreign participation or local branches of multi-national companies display higher awareness and more sophisticated approach in relation to BE<sup>6</sup>, a trend, which has also been observed among large companies. Previous studies also suggest existing BE gap between Czech SMEs and large companies. While majority of large companies started developing and implementing specific BE instruments (know-how stage), most SMEs are still in the phase of know-why. Nevertheless, despite reported lower awareness and knowledge of BE or CSR concepts among small companies (Trnkova, 2004; Čaník and Čaníková, 2006; Travnickova, 2005), many SMEs actually successfully practice BE or CSR principles intuitively.

Previous studies have also provided some information regarding some BE perceptions prevailing in Czech business sector. It is alarming that a large number of managers does not see ethical behaviour as beneficial for the company (e. g. Travnickova, 2005) and that a certain level of unethical (rather than ethical!) conduct is considered to be the standard. Furthermore, especially in the short-run, unethical conduct is often seen as a competitive advantage. Another largely held opinion is that companies can start paying more attention to BE issues only after they have reached economic stability, or that more sophisticated approach to BE and CSR topics is only needed in large companies (Čaník and Čaníková, 2006)<sup>7</sup>. Travnickova (2005) also reports the existence of a large discrepancy between private and public sector, the latter being regarded as more unethical. Despite that, CSR or BE studies cited here also suggest that BE is growing in importance, BE practices are growing in sophistication and overall business environment seems to be becoming more ethical.

Existing studies also suggest another important feature of Czech business environment is the application of so-called double standards (Travnickova, 2005; Čaník and Čaníková, 2006). Czech managers tend to distinguish two types of unethical behaviour – unethical practices which directly harm their own organization and should be severely punished (“bad ones”), and unethical practices benefiting their own organization (“good ones”). The latter are regarded as overall less harmful, not necessarily requiring punishment. Furthermore, if unethical behaviour in an organization is discovered, it is usually seen as a problem of character or individuals, rather than a problem of the whole organization. Consequently, in many cases Czech managers refuse their organization’s responsibility for unethical conduct displayed by their employees (Čaník and Čaníková, 2006).

Finally, generally high level of scepticism regarding government intervention or any institutions promoting BE should also be mentioned. Implied by the experience from the previous regime, Czech managers regard these activities as inherently ineffective (Travnickova, 2005). This attitude is also related to the widely held opinion that if exemplary ethical behaviour and CSR activities of companies are publicly announced or discussed, in the eyes of the public such activities are reduced to PR instruments through which the organization is trying to boost its economic performance.

### 3. Methodology, Data and Sample Description

This study is based on a fully anonymous questionnaire survey using a modified version of a questionnaire employed by Choi, Nakano (2008)<sup>8</sup>. The modifications include the change of monetary unit for CZK (Czech Crown) and adjustment of the financial amounts to better reflect purchase power in the CR. Companies participating in the survey were identified by snowballing and the questionnaire was self-administered and submitted to the researchers via e-mail. Data was collected in August 2010.

Descriptive statistics of the sample are provided in Table 1. Respondents’ organizations cover various industries,

levels of management, and company sizes. Company size classification is based on the classification used in the EU<sup>9</sup>. As the table documents, 38% of the sample are large size enterprises<sup>10</sup>. Where company size may bear significant influence on the interpretation of the results, a separate analysis is provided for SMEs and large companies. As the sample mainly consists of non-manufacturing industry organizations (86%), the conclusions from this survey should be interpreted with caution and extended to manufacturing companies only with great care.

In relation to the sample description, it is also interesting to mention a high proportion of respondents without religion. It has been previously noted as a sociological phenomenon that the Czech Republic is the most secular country in Europe, even when compared with other culturally close Central European<sup>11</sup> or ex-communist countries. This fact bears importance on the survey, as the values of non-religious respondents are unlikely to be strongly influenced by any belief or religion<sup>12</sup>.

## 4. Results

This section reports major findings of the study. Based on different aspects of BE investigated in our survey, we divide the results into six groups: those concerning unethical industry practices, management of ethical values in respondents' organizations, responsibility to various social groups and respondents' experience of ethical conflicts, factors influencing (un)ethical decision making, comparison of current ethical standards with the situation ten years before, and the results related to hypothetical situations. More detailed information follows.

### 4.1 Unethical Practices in Respondent's Industry

We first focus on respondents' opinions of general BE practices in their industry. Table 2 documents unethical practices are still widespread, as 78% of respondents report the existence of unethical practices in their industries and only 15% think there are none. On checking for company size, we found that SMEs report the existence of unethical practices more often (84% of SMEs respondents answer "Yes, a few" or "Yes, many") than large companies (68% for both answers combined). The explanation may be that SMEs are more open to the external environment, making all of their employees more likely to be exposed to the situations where they can encounter or observe the existence of unethical practices. More detailed analysis also reveals that the tendency to report the existence of unethical practices does not appear to be related to the management position, as the results are very consistent for all managerial groups.

Table 3 reports that among existing unethical practices, respondents would most wish to eliminate "Giving of gifts, gratuities, and bribes", "Price discrimination and unfair pricing", "Dishonesty in making or keeping a contract", and "Miscellaneous unfair competitive practices". The list is topped by unethical practices directly related to business relationships with business partners and business contracts while practices related to respondents' organizations' internal issues (e. g. unfairness to employees or dishonest advertising) are considered as less important. This complies with the notion reported in prior studies that Czech managers mostly see BE issues as those arising from direct contact and everyday dealings with their business partners, neglecting other dimensions of BE. In situations where large companies can exercise stronger power implied by their economic size, SMEs and large companies' responses differ. For example, "Miscellaneous unfair competitive practices" are viewed as a more serious problem by the respondents from SMEs (47%), rather than large companies (33%). Similarly, "Price discrimination and unfair pricing" is also reported more often by SMEs respondents (50% vs. 40% for large companies).

### 4.2 Management of Ethical Values in Respondents' Organizations

With regards to the effort respondent's organization is making to enhance ethical values (Table 4), it is alarming to see that one fourth of respondents said their company is not making any effort at all and another 14% answered "Yes, but very little" (when combined, 38% of the answers). In contrast, only 14% think their organization is making effort to promote ethical values "eagerly".

As for the differences between SMEs and large companies, as expected, big companies' approach appears more active. According to the results, 77% of respondents from large companies answered "Yes, eagerly" or "Yes, to some extent", while in SMEs the combined percentage is only 51%. The explanation behind this results seems to be the generally held opinion that SMEs have "other things to worry about" than BE or CSR issues (Travnickova, 2005; Čaník and Čaniková, 2006). Furthermore, large companies are often linked to foreign (Western) companies or investors who bring more sophisticated attitudes to BE from their own country. However, it is also important to point out that in many

cases, small companies practice BE attitudes intuitively without institutionalizing them, and the effort on the part of such companies may not be recognized as the effort towards BE enhancement (Čaník and Čaníková, 2006).

The analysis also focused whether the way the respondents assess organization's BE effort is related to managerial position. When the answers "Yes, eagerly" and "Yes, to some extent" were added up, no significant differences were found for the groups of middle management (upper or lower) and non-management personnel. However, it was interesting to see that the responses of the group of top managers differ. Contrastingly to the rest of the sample, top managers tend to view their organizations effort as insufficient. Only 46% of them have answered "Yes, eagerly" or "Yes, to some extent", while 31% of top-management think the effort made is 'very little'. This may be caused by the fact that top managers are likely to be better informed of BE or CSR instruments and are in better position to see their organization's activities in larger context. Being aware of all possible ways to enhance BE, top managers may qualify the organization's effort as insufficient although from the viewpoint of lower managerial level the effort may seem enough. The answer may also reflect the fact that top managers are the main decision makers, who, fully aware of BE and CSR importance, may feel frustrated by insufficient resources they have at the disposal for BE and CSR enhancement<sup>13</sup>. This would be supported by the results of previous studies documenting that a number of managers show active interest in BE and CSR, but state they currently lack the resources for the development of BE and CSR in their organization (Čaník and Čaníková, 2006).

As far as the instruments used to enhance BE are concerned (Table 5 Panel A), overwhelming majority of companies rely on *corporate philosophy including ethics* (86% of respondents who answered the question), followed by the use of the *code of ethics* as distant second (46%), *contribution to social/cultural activity* (43%), *punishment for unethical conduct* (34%), and *employee training in ethics* (27%). According Table 5 Panel B, on average, companies use three different business ethics enhancement instruments. Differences between SMEs and large companies are also confirmed again. While the average number of different ethical instruments used by large companies is 3.9, for small companies it is only 2.4. It is also noteworthy that only 6% of big companies reported the use of *social auditing*, which is in contrast with the finding of Čaník and Čaníková (2006), who report that social auditing along with the use of code of ethics are BE tools receiving most attention.

On sorting the answers according to the management position for SMEs and large companies separately, interesting results were obtained (Table 5 Panel B). While for large companies the average number of ethical enhancement tools reported by the respondents decreases with the managerial level (with the exception of "other"), for SMEs the same number increases with management level (with the exception of "other"). This discrepancy points at the fact that lower level employees may be less accurately informed of BE tools in use by their company or the possibility of insufficient BE trainings. However, a large sample size and deeper analysis is needed to shed more light on this issue.

#### 4.3 Responsibility to Various Social Groups and Respondents' Experience of Ethical Conflicts

Among various social groups, respondents think company is most responsible to *customers*, followed by *employees* as distant second, and *stockholders, suppliers and society in general* (Table 6). It is not surprising to see that respondents do not feel strongly responsible to government, which can be explained by a high level of scepticism of population towards institutions or public sector as reported in the CR (Travnickova, 2005). We contend that the lower level of responsibility to local community may be implied by communist history.

Slightly more than a half of respondents have experienced ethical conflicts in their career (Table 7), with some difference between SMEs and large companies – while 43% of respondents from large companies have experienced ethical conflict, in SMEs it was over 55%. Respondents have most commonly experienced conflicts related to "*honestly in internal communication*", "*gifts, entertainment, and kickbacks*", and "*firings and layoffs*" along with "*honestly in executing contracts and agreements*", closely followed by "*fairness and discrimination*" and "*honesty in external communication*" (Table 8). Ethical conflicts respondents have experienced usually involve suppliers, employees, customers, colleagues, and competitors (Table 9). The finding that the most common type of ethical conflict is honesty in internal communication and the finding that employees and colleagues belong among the four most common social groups involved in the ethical conflicts respondents have experienced suggest that the perceptions of BE in the CR are changing and BE is beginning to be understood as an internal issue.

Respondents were further asked whether they reported the unethical practices they have experienced and if not, why. According to Table 10, in 74% of cases unethical practices went unreported. While 24% of managers gave as a reason that "*even if reported, it would be difficult to correct the unethical practice*", 21% stated "*it was difficult to decide whether the practices were ethical or not*" (Table 11). As for the large amount of answers in the category of "other"

(reasons), majority of them fell in two groups. The first can be summarized as saying they have never experienced an ethical conflict, so there was no reason to report it. The second one is related to managerial positions – top-management respondents said they had no superior to report to or had sufficient authority to solve the situation without superior's intervention.

#### 4.4 Factors Influencing (Un)ethical Decision Making

The survey also examined the factors influencing (un)ethical decision making. In making ethical decisions (Table 12), "One's personal code of behaviour" was reported as the strongest factor, followed by "company policy", "the behaviour of one's superiors", and "the behaviour of one's equals in the company". "Ethical climate of the industry" was considered as the least influential factor. These findings are in contradiction to previous studies repeatedly suggesting important role (or even key role) of leadership by example in Czech organizations (e. g. Travnickova, 2005). To understand this discrepancy better, we tried to see whether the company size or managerial position had any influence on the distribution of the answers. When the responses were arranged according to the management position, mixed results were obtained. Despite that, it was possible to observe increasing importance of ethical climate of the industry with increasing position in the company hierarchy. One possible explanation might be that the more responsibility managers have, the more external factors they need to consider in making their decisions, including overall ethical climate of the industry.

As for the issue raised earlier (weak influence of the behaviour of superiors or colleagues), we can only note that the importance of superiors for respondents in making ethical choices rose with decreasing management level (untabulated)<sup>14</sup>. This may be explained by the fact that with lower position, an employee has less power and authority and thus may tend to turn to superiors as opinion leaders more often.

In addition, two interesting findings should be mentioned. First, the results suggest that ethical climate of the industry plays more important role in ethical decision-making of SMEs (median rank 4.0) than in big companies (4.5)<sup>15</sup>. The reason may be that small companies are more open and more exposed to the outside environment and thus need to consider its current state more carefully than big companies. The second interesting finding is that in big companies, respondents reported stronger reliance on one's personal code of behaviour than in SMEs. It is left to future research to provide more insight into this finding.

As for making unethical decisions, personal financial needs were reported as the most significant factor, followed by company policy or lack thereof, and the behaviour of one's superiors (Table 13). Financial needs reported as the main reason for unethical conduct are well in line with previous literature documenting the tendency of the Czech to see unethical conduct more as a problem of individuals, rather than companies (e. g. Putnova, 2000; Čaník and Čaníková, 2006). The lack of company policy as an important unethical conduct factor may be related to the legislature and general policy vacuum (in public as well as private sector) that existed in Czech economy during the transformation process and the fact that BE and CSR concepts are still new for Czech businessmen. Although social demand for more clear guidelines existed, they were not provided or systematically executed, so this answer may also show lingering frustration of the inexistence of clear ethical rules to follow. Similarly to the previous question, the behaviour of colleagues or superiors does not belong among the most influential factors, although its importance increases with decreasing management level.

#### 4.5 Hypothetical Situations

Finally, the respondents were presented with four types of hypothetical situations. In each case, they were asked what they would do in a given situational context and what they think an average businessman/executive (AE) would do. The responses are summarized in Table 14.

##### 4.5.1 Situation 1

In Situation 1 respondents were asked what they thought about an executive padding his expense account. As the table documents, 68% of respondents think this behaviour is "unacceptable regardless of circumstances". In contrast, 27% of respondents think it is "acceptable, if the executive's superior knows about it and says nothing". These answers indicate the respondents are willing to follow the attitude displayed by the superior's behaviour. This corresponds to the findings concerning the factors influencing (un)ethical behaviour, where superiors were not considered the major factor, and at the same time were reported to be more influential factor than the behaviour of one's colleagues (the option "acceptable, if

*other executives in the company do the same thing*" was only chosen by 5% of respondents).

The answers regarding what an average manager would think differed. Most respondents said that an average manager would think the behaviour is *"acceptable, if the executive's superior knows about it and says nothing"* (40%), followed by *"acceptable, if other executives in the company do the same thing"* (32%) and then *"unacceptable, regardless of circumstances"* (28%). This shows that Czech managers tend to regard themselves more ethical than the average. The findings related to Situation 1 also finally shed some light on the discrepancy identified in Table 12. Corroborating the findings from Table 12, the answers to Situation 1 suggest that the notion that "leadership by example" works and that it is a very significant factor influencing the conduct of Czech managers, is the respondents' opinion of the common situation in the industry (average manager). However, when managers are asked to provide answers concerning their own behaviour and motivation, their responses reveal that this factor is significantly weakened and that their own behaviour is more strongly influenced by personal code of ethics or company policy (Table 14). Alternative explanation is that the answers may also be influenced by social desirability.

#### 4.5.2 Situation 2

Situation 2 concerns managers' willingness to hire an employee to obtain technological secret which would improve the position of their organization vis-a-vis major competitors in the same industry. As Table 14 shows, while 80% of respondents would probably hire the employee, 20% probably would not. As for the opinions of an average manager, the ratio is as high as 97% of opinions stating that average manager would do so and mere 3% stating he probably would not hire the employee. These findings confirm that respondents view themselves more ethical than the average, or, alternatively, they view the average less ethical than themselves. These findings may also partially reflect the "double standards" repeatedly reported by prior studies (Travnickova, 2005; Čaník and Čaníková, 2006) referring to the fact that Czech managers tend to make distinction between unethical behaviour that brings benefits to their organization ("good unethical conduct"; often belittled in importance and not requiring strong punishment) and unethical behaviour that directly harms it ("bad unethical behaviour"; should be punished and persecuted).

#### 4.5.3 Situation 3

In Situation 3, respondents were asked what they would do if the minister of a foreign nation offered them help in obtaining a contract in exchange for a 'special consulting fee'. When answering for themselves, 38% of respondents said they would *"refuse to pay, even if sale is lost"*, while more than a half said they would *"pay the fee, feeling it was unethical but necessary to help insure the sale"* and 9% would *"pay the fee, feeling it was ethical in the moral climate of the foreign nation"*.

These answers reveal that this kind of situation would expose 54% of respondents to an ethical dilemma, which they would finally solve by suppressing their personal ethics in favour of the interests of their organization. This is contradictory to the answers in Tables 12 and Table 13 where ethical climate of the industry was regarded among the least influential factors in respondents making (un)ethical decisions.

When talking about an average executive (AE), strikingly few (5%) respondents stated that AE would *"refuse to pay, even if sale is lost"* (For comparison, when talking about themselves, 38% of respondents said they would do so). Another 61% think that AE would *"pay the fee, feeling it was unethical but necessary to help insure the sale"* and the remaining 33% said he would *"pay the fee, feeling it was ethical in the moral climate of the foreign nation"*. These results again suggest respondents view themselves as more ethical than they view average managers.

#### 4.5.4 Situation 4

Finally, in Situation 4 respondents were asked what they would do if they were a sales manager and found out that their salespeople are giving money to purchasing agents to obtain more sales. While 15% of respondents reported they would "issue an order stopping future payments and reduce salespeople's pay in the amount equal to their commissions on the sales gained as a result of future payments", 59% would "issue an order stopping future payments, but do not reduce sales people's pay", and 25% would "say and do nothing". These responses suggest that unethical behaviour favouring the respondents' organization would be largely tolerated, in the sense that even if managers tried to stop it, they would not punish it (59%), or no attempt to correct this unethical practice would be made (25%). Again, we can see the manifestation of "double standards" as mentioned above.

When asked about an average sales manager, 70% of respondents think average sales manager would “say and do nothing”, 23% that he would “issue an order stopping future payments, but do not reduce sales people’s pay”, and only 7% are of the opinion he would “issue an order stopping future payments and reduce salespeople’s pay in the amount equal to their commissions on the sales gained as a result of future payments”. These answers again confirm the general scepticism of average managers and better view respondents hold of themselves when compared with an average manager. The gap is especially obvious when respondents talk about saying and doing nothing – while 25% of respondents ticked this answer when talking about themselves, 70% of respondents think this is what an average manager would do.

To summarize, the situational questions reveal a difference between theoretically stated ethical principles and preferences as summarized in the previous parts of this section, and behaviour when faced with real situation. This points towards the need for more practically oriented trainings, rather than theoretical explanations or materials, which may be understood as moralizing. Furthermore, the answers to hypothetical situation demonstrate different perceptions of one’s own ethical standards and those of average managers, who are viewed as much less ethical.

## 5. Conclusion

Through a questionnaire survey, this study investigated the views of BE held by Czech managers and non-managerial personnel of private and public organizations in the CR. Four BE areas, namely, the management of BE within the respondents organizations, respondents opinions of BE practices in their industries, their experience of ethical conflicts, and the factors influencing un(ethical) decisions were examined. In addition, survey participants were also presented with four different hypothetical situations, and they were asked what they would do and what an average manager/executive would do in such situations.

The results show that 61% of organizations are making more than “very little” effort to build ethical values in their organizations. The most common ethical enhancement instruments are corporate philosophy, code of ethics, contribution to social/cultural activity, and punishment for unethical conduct. When compared with SMEs, large companies make more active effort and on average use a larger variety of different BE instruments than SMEs. Managers feel most responsible to customers, employees and stockholders, while the responsibility towards government or society is rather weak.

Unethical practices are seen to be widespread - 78% of respondent report the existence of unethical practices in their industries. Bribing, unfair competitive practices, breaking or violating contracts and unfair pricing practices are perceived as the most serious issues. Slightly over a half of survey participants have experienced an ethical conflict in their career, most often related to honesty in internal communication, offering bribes, and firings and layoffs. The fact that honesty in internal communication is the most often cited cause of ethical conflicts may suggest changing understanding of BE, which is beginning to be seen as an internal issue. However, more studies are needed to verify this notion.

While one’s personal code of behaviour followed by company policy were reported as the most influential factors in making ethical decisions, personal financial needs and lack of company policy are viewed as the strongest factors for unethical decisions. In both cases, ethical climate of the industry was perceived as a relatively weak factor; however, the answers to other questions reveal a discrepancy between theory and practice and indicate that respondents own ethical standards are not in reality as influential as respondents would wish. Our findings also indicate that respondents’ answers are biased by social desirability.

Providing more detailed view, situational questions largely support the above findings. However, as mentioned above, they also reveal a difference between theoretical answers and respondents’ behaviour when facing real situations.

The results of our study should be interpreted with caution. First, we acknowledge the limits of our study caused by the fact that the group of manufacturing industry and the group of large companies are slightly underrepresented, and the sample is relatively small. Despite that, we think that the findings point at some important trends and have enough validity to be taken into account. Furthermore, as repeatedly pointed out in the paper, respondents’ answers may be influenced by various sorts of bias. In particular, social desirability seems to play a role, and it was also possible to observe that with increasing management position respondents were more reluctant to provide any answer which might make them appear as unethical. Moreover, when reading the results it is important bear in mind that generational difference plays a more important role in Czech as well as other ex-communist countries than the rest of Europe. It is so because the respondents from the age group of 40 and higher have spent most of their lifetime under a non-democratic regime suppressing their opinion, but at the same time simplifying many decisions due to the limited freedom of choice. As with any other surveys, we must not forget that self-selection also plays a role in our survey. It is likely that organization that do not consider BE issues important will be less willing to return a completed survey. The results will be thus more optimistically biased in the



sense that they come from organizations (individuals) with at least certain amount of awareness of BE. Finally, it is also possible that answers to some questions are biased by the prevailing impact of the recent economic crisis, as sluggish or declining economy tends to worsen the view of business environment.

Our study contributes to our understanding of BE in the CR in several respects. To our knowledge, this is the first study of BE in the Czech Republic of this extent that has been conducted since the economic crisis that hit the world economy in 2008, and as such, it can provide interesting insights in BE perceptions in the post-crisis environment. Furthermore, majority of previous comprehensive BE studies in the CR are rather old, as the most recent one we have been able to find dates to 2006, which is a long time in the fast changing business environment of transitional economies. Another point is that unlike many previous studies, which either focus on in-depth investigation of one single BE instrument (Transparency International, 2006) or broadly cover CSR issues and consider BE just a part of them, our study is monothematic in the sense that it solely focuses on BE. Last but not least, our sample composition to large extent reflects opinions of SMEs, which are often neglected by other researches, as SMEs are likely to employ less sophisticated BE policies and instruments. We believe that our findings can be beneficial for any organizations focused on BE promotion or BE training. The findings of our study provide useful insights of how BE was perceived in 2010 and as such they can help these institutions better target their efforts. Our results can be also used for educational purposes. BE studies are still a new subject at Czech universities and teachers still largely use teaching materials originated in other countries. Last but not least, our study can also provide more accurate information on Czech business environment to businessmen, often relying on their own experience when assessing business practices in their field (country), or any other economic subjects interested in cooperation with Czech companies.

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**Footnotes:**

- <sup>1</sup> Czech population in March, 2010 was about 10,500,000 inhabitants; 2009 GDP per capita 18,971 PPS (Purchase Power Standard). Czech Statistical Office, <http://www.czso.cz/>.
- <sup>2</sup> Czech Republic has been EU member since May, 2004.
- <sup>3</sup> Transparency International CR, Business Leaders forum CR, AISIS, VIA Foundation, CG Partners, SCR Consults, Ethical Forum of the CR, etc. can serve as the examples of such organizations.
- <sup>4</sup> The uncertainty implied by insufficient knowledge of local business practices, and among them especially those related to ethical issues or legal aspects of doing business, is an important factor for companies in their decision about the location of their investment.
- <sup>5</sup> In 1993 former Czechoslovakia peacefully split up into two sovereign countries – the Czech Republic and the Slovak Republic.
- <sup>6</sup> However, Czech economic agents realize it does not necessarily mean a higher **level** of BE on the side of foreign companies. In fact, certain amount of Czech managers are of the opinion that while foreign companies have devised more sophisticated ways to enhance BE or CSR, they have at the same time become very apt at finding ways how to avoid acting in accordance with them. BE or CRS instruments thus in many case become mere PR tools, rather than efficient ways of increasing overall level of BE and CRS (Travnickova, 2005).
- <sup>7</sup> Čaník and Čaníková (2006) also find that a significant portion of SMEs managers believes ethical practices can be developed through personal communication and shared company culture, with written rules or ethical code considered unnecessary.
- <sup>8</sup> This study is part of a series of studies conducted worldwide (e. g. Korea, Japan, China, Bhutan, USA) based on the same survey instrument.
- <sup>9</sup> Recommendation 2003/361/EC regarding the SMEs definition, <http://ec.europa.eu/enterprise/policies/sme/>
- <sup>10</sup> Based on the portion of Czech GDP originated in SMEs and large companies, large companies (38% of the sample) are slightly underrepresented (about 40% of Czech GDP is originated in large companies), data for 2010, taken from the official website of the Czech Statistical Office (<http://www.czso.cz/>).
- <sup>11</sup> The country culturally closest to CR is the Slovak Republic. Nevertheless, even in Slovakia the proportion of religious population (84% of population in 2001) is much higher than in the CR (31% in 2001). Both numbers are taken from the official website of the Czech Statistical Office (<http://www.czso.cz/>).
- <sup>12</sup> This fact is relevant in relation to the answers provided in Tables 12 and 13 (survey participants' responses regarding the factors influencing their (un)ethical decisions).
- <sup>13</sup> As the proportion of respondents at the top-management level is lower for large companies than for SMEs (See Table 1 B), we also conducted the analysis of responses according to the management level for SMEs and large companies separately. The above findings have been confirmed. Not tabulated.
- <sup>14</sup> The answer to the question raised here is further discussed in relation to the results reported in Table 14 of this paper.
- <sup>15</sup> Untabulated.

**Tables:**

**Table 1 (Panel A):** Descriptive Statistics of respondents

Descriptive Statistics		
1. Age		N=60
	29 or under	10%
	30-39	42%
	40-49	20%
	50 or over	27%
2. Education		
	High school graduate or less	12%
	Bachelor' degree or vocational school	13%
	Graduate school	75%
3. Management position		
	Top management (president, chairman of board, executive director and board member)	22%
	Upper middle management (functional department head, assistant director of department and deputy director of department)	32%
	Lower middle management (functional unit head)	32%

Other (non-management personnel, assistant manager, supervisor and government officer)	15%
4. Industry	
Manufacturing	14%
Non-manufacturing (mining, construction, transportation, and other service industries)	86%
5. Company size: number of employees <sup>*</sup>	
1-49 (Small enterprises)	38%
50-249 (Medium size enterprises)	25%
250 or more (Large enterprises)	37%

*\*Company size classification is based on Recommendation 2003/361/EC regarding the SMEs definition commonly used within the EU (<http://ec.europa.eu/enterprise/policies/sme/>).*

**Panel B:** Number of respondents by management position (SMEs vs. Large Companies)

Company Size	Top (%)	Upper – middle (%)	Lower – middle (%)	Other (%)
SMEs	76.9	73.7	52.6	44.4
Large	23.1	26.3	47.4	55.6

N=60.

**Table 2:** Existence of unethical practices

	All (%)	Company Size		Management Position			
		SMEs (%)	Large (%)	Top (%)	Upper – middle (%)	Lower – middle (%)	Other (%)
None	15.0	15.8	13.6	23.1	10.5	10.5	22.2
Yes, a few	61.7	63.2	59.1	61.5	63.2	63.2	55.6
Yes, many	16.7	21.1	9.1	15.4	21.1	10.5	22.2
Don't know	6.7	0.0	18.2	0.0	5.3	15.8	0.0

N=60.

**Table 3:** Unethical practices most wanted to eliminate

	All (%)	SMEs	Large
Giving of gifts, gratuities, and briberies	53.2	50.0	60.0
Price discrimination and unfair pricing	46.8	50.0	40.0
Dishonesty in making or keeping a contract	42.6	40.6	46.7
Miscellaneous unfair competitive practices	42.6	46.9	33.3
Price collusion by competitors	27.7	28.1	26.7
Cheating customers	27.7	31.3	20.0
Dishonest advertising	23.4	25.0	20.0
Unfairness to employees	21.3	18.8	26.7
Overselling	12.8	18.8	0.0
Unfair credit practices	10.6	12.5	6.7
Other and unspecified	4.3	3.1	6.7

N=47. The question was designed as multiple-choices type, the respondents were asked to check as many answers as applicable. Percentage among those who answered this question.

**Table 4:** Company efforts to build ethical values into organization

	2All (%)	Company Size		Management Position			
		SMEs (%)	Large (%)	Top (%)	Upper – middle (%)	Lower – middle (%)	Other (%)
Yes, very eagerly	13.6	10.8	18.2	46.2	66.7	63.2	66.7
Yes, to some extent	47.5	40.5	59.1				
Yes, but very little	13.6	18.9	4.5	30.8	5.6	10.5	11.1
Not at all	25.4	29.7	18.2	23.1	27.8	26.3	22.2

N=59.

**Table 5 Panel A:** Methods of building ethical values into the organization

	All (%)	Company Size	
		SMEs (%)	Big (%)
Corporate philosophy including ethics	86,4	80,8	94,4
Code of ethics	45,5	34,6	61,1
Contribution to social/cultural activity	43,2	34,6	55,6
Punishment for unethical conduct	34,1	23,1	50,0
Employee training in ethics	27,3	15,4	44,4
CEO's frequent statements on ethics	18,2	23,1	11,1
Following parent company's philosophy	18,2	15,4	22,2
Anonymous Reporting Hotline for unethical conduct	11,4	3,8	22,2
Suggestion system on ethics	6,8	0,0	16,7
Ombudsman	6,8	3,8	11,1
Social auditing	6,8	7,7	5,6
Ethics committee	0,0	0,0	0,0
Other and unspecified	0,0	0,0	0,0

N=44.

**Table 5 Panel B:** Average number of ethical enhancement tools for SMEs and large companies by management position

	ALL	SMEs	Large	All	SMEs	Large
Top management	3.0	2.4	3.9	2.6	1.6	5.0
Upper middle management				2.9	2.4	4.3
Lower middle management				3.2	3.3	3.1
Other				3.7	2.5	4.3

N=44.

**Table 6:** Company responsible to social groups (mean ranks)

	All	SMEs	Large
Customers	1.7	1.4	2.1
Employees	2.8	2.6	3.1
Stockholders	3.0	3.3	2.6
Suppliers	4.3	4.1	4.7
Society in general	4.4	4.6	4.1
Government	6.1	6.8	5.1
Dealer	6.3	6.1	6.7
Local community	6.4	6.3	6.6

N =58. Number 1: social group to which respondents feel most responsible, n. 8: social group to which respondents feel least responsible.

**Table 7:** Experience of conflicts between company interests and personal ethics

	2All (%)	Company Size		Management Position			
		SMEs (%)	Large (%)	Top (%)	Upper – middle (%)	Lower – middle (%)	Other (%)
Yes	50.8	55.3	42.9	38.5	52.6	50.0	66.7
No	49.2	44.7	57.1	61.5	47.4	50.0	33.3

N=59.

**Table 8:** Issues with regard to which conflicts between company interests and personal ethics were experienced

With regard to	All (%)
Honestly in internal communication	50.0
Gifts, entertainment, and kickbacks	36.7
Firings and layoffs	36.7
Honesty in executing contracts and agreements	30.0
Fairness and discrimination	26.7
Honesty in external communication	26.7
Price collusion and pricing practices	16.7
Other and unspecified	3.3

N=30.

**Table 9:** Social groups with regard which ethical conflicts were experienced

With regard to	All (%)
Suppliers	48.4
Employees	41.9
Customers	32.3
Colleagues	29.0
Competitors	25.8
The law and government	22.6
Superiors	16.1
Society in general	3.2
Other and unspecified	3.2
Stockholders	0.0

N=31.

**Table 10:** Have respondents reported unethical practices?

	All (%)
Yes	26.3
No	73.7

N=57.

**Table 11:** Why were not unethical practices reported?

	All (%)
It was difficult to decide whether the practices were ethical or not	20.6
Even if reported, it would be difficult to correct the unethical practice	23.5
It was questionable whether my identity as the person who reported the unethical practice would be kept secret	17.6
I would receive negative judgment from my superior or colleagues	0.0
Other	11.8

N=34.

**Table 12:** Factors influencing *ethical* decisions (mean ranks)

	All	SMEs	Large
One's personal code of behaviour	1.9	2.1	1.6
Company policy	2.3	2.1	2.4
The behaviour of one's superiors	2.7	2.8	2.6
The behaviour of one's equals in the company	3.7	3.4	3.9
Ethical climate of the industry	4.3	4.1	4.5

N=58. Number 1 the most influential factor, n. 5 the least influential factor.

**Table 13:** Factors influencing *unethical* decisions (mean ranks)

	All	SMEs	Large
One's personal financial needs	2.4	2.3	2.5
Company policy or lack thereof	2.7	2.8	2.5
The behaviour of one's superiors	2.8	2.9	2.5
The behaviour of one's equals in the company	3.3	3.4	3.2
Ethical climate of the industry	3.7	3.4	4.1

N=58. Number 1 the most influential factor, n. 5 the least influential factor.

**Table 14:** Hypothetical situations

	Oneself (%)	Average manager (%)
Situation 1 (N = 49)		
Acceptable if other executives in the company do the same thing	5.1	31.6
Acceptable if the executive's superior knows about it and says nothing	27.1	40.4
Unacceptable regardless of the circumstances	67.8	28.1
Situation 2 (N = 49)		
Probably would	79.7	96.6
Probably would not	20.3	3.4
Situation 3 (N = 48)		
Refuse to pay, even if sale is lost	37.9	5.3
Pay the fee, feeling it was ethical in the moral climate of the foreign nation	8.6	33.3
Pay the fee, feeling it was <b>unethical</b> but necessary to help insure the sale	53.4	61.4
Situation 4 (N = 49)		
Issue an order stopping future payments and reduce salespeople's pay in the amount equal to their commissions on the sales gained as a result of future payments	15.3	7.0
Issue an order stopping future payments, but do not reduce sales people's pay	59.3	22.8
Say and do nothing	25.4	70.2

In relation to hypothetical situations, respondents were asked the following questions:

**Situation 1:** An executive earning EUR 100,000 a year has been padding his expense account by about EUR 5,000 a year. What do you think?

**Situation 2:** Imagine that you are the president of a company in a highly competitive industry. You learn that a competitor has made an important scientific discovery which will give him an advantage that will substantially reduce the profits of your company for about a year. If there were some hope of hiring one of the competitor's employees who knew the details of the discovery, what would you do?

**Situation 3:** The minister of a foreign nation, where extraordinary payments to lubricate the decision-making machinery are common, asks you, as a company executive, for an EUR 250,000 (about 6,250,000 CZK) consulting fee. In return, he promises special assistance in obtaining a 100 million EUR (2. bil CZK) contract which should produce, at least, a 5 million EUR (125 mil CZK) profit for your company.

**Situation 4:** Imagine that you are a regional sales manager for a large industrial supply company and your salespeople are giving money to purchasing agents to obtain sales. This is beyond the generally acceptable meal or promotional item. Assuming that no laws are being violated, what would you do?